

	In Millions of Dollars (except per share data)
Revenue	13,428
Operating Income	\$1,173
Pro Forma Net Income	\$819
Net Income	\$1,020
Pro Forma Earnings Per Share (Diluted)	\$.33
Earnings Per Share(Diluted)	\$.41
Gross Margin	\$2,499
Total Stockholders' Equity	\$5,509
Total Liabilities	\$17,102

501. In terms of Dell's reported revenue, the Q2 2006 10-Q stated: "In both the three and six month periods ended July 29, 2005, we grew revenue across all regions and product categories over the prior year periods."

502. The Q2 2006 10-Q stated the following about Dell's reported gross margin:

Despite a competitive pricing environment, our gross margin as a percentage of revenue increased to 18.6% for both the second quarter and first six months of fiscal 2006, compared to 18.2% and 18.1% for the same period in fiscal 2005, respectively. Our year-over-year improvement in gross margin is due to favorable pricing on certain commodity components, higher revenue to leverage fixed production costs, and a favorable shift in product mix.

503. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing

statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

504. The Q2 2006 10-Q stated the follow about Dell's adherence to GAAP:

The accompanying unaudited condensed consolidated financial statements of Dell Inc. ("Dell") should be read in conjunction with the consolidated financial statements and accompanying notes filed with the U.S. Securities and Exchange Commission ("SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended January 28, 2005. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its consolidated subsidiaries as of July 29, 2005 and January 28, 2005; and the results of its operations for the three and six month periods ended July 29, 2005 and July 30, 2004.

505. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

506. The Q2 2006 10-Q contains the following false and misleading chart:

NOTE 5 — AGGREGATE DEFERRED REVENUE AND WARRANTY LIABILITY

Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Changes in Dell's aggregate deferred revenue and warranty liability are presented in the following table:

	Six Months Ended	
	July 29, 2005	July 30, 2004
	(In millions)	
Aggregate deferred revenue and warranty liability at beginning of period	\$ 3,594	\$ 2,694
Revenue deferred and costs accrued for new warranties	1,942	1,480
Service obligations honored	(741)	(557)
Amortization of deferred revenue	(889)	(585)
Aggregate deferred revenue and warranty liability at end of period	\$ 3,906	\$ 3,032

507. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

508. With respect to Dell's operations in Japan, the Q2 2006 10-Q stated, "APJ — Year-over-year net revenue growth during the second quarter and first six months of fiscal 2006 was 24% and 21%, respectively. Over half of the segment's revenue growth came from Japan and China. India, South Korea and Malaysia produced year-over-year growth at a higher rate than the overall region for the second quarter and first six months of fiscal 2006."

509. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

510. Under the heading "Legal Proceedings," the Q2 2006 10-Q stated: "Dell is subject to various legal proceedings and claims arising in the ordinary course of business. Dell's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on Dell's financial condition, results of operations, or cash flows."

511. Defendants knew, or recklessly disregarded, that the statements concerning legal proceedings were false and misleading because Defendants knew at that time that Dell was being investigated by the SEC and that a civil or criminal action, or a settlement that involved a restatement, was likely.

512. Dell also stated the following about the Company's controls:

Dell's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, Dell's disclosure controls and procedures were effective.

513. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

514. The Q2 2006 10-Q also included signed certifications from Rollins and Schneider stating:

1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the

financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.